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ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
July 1989

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WHERE ARE THE ECONOMIC IMBALANCES?

Early this year, all the early signals of an impending recession appeared to be in place. Commodity prices were rising rapidly. Inventory profits were growing sharply. Short-term interest rates were surging and had outpaced long-term interest rates. Although the surge in inventory profits masked a deterioration in corporate profitability, cost-cutting soon would develop when commodity inflation slowed and revealed the crunch in operating profits that occurred during the first quarter. Even the dollar's rally, which significantly reduced potential for export growth, indicated that industrial problems were ahead. Despite strong growth in stock prices, the leading indicators confirmed that these signals revealed stormy economic clouds ahead.

Initially, some signs of economic imbalance also appeared to be developing. Inflation-adjusted nonfarm inventories appeared to have grown by $41 billion during the first quarter. This was following a slightly excessive rate of inventory accumulation last year. With consumer purchases sagging under the onslaught of rising commodity prices, weakening in final sales soon could lead to excessive inventory holdings that almost always precedes a recession.

However, data revisions show that those inventory accumulations were overstated. Inventories grew $15 billion less in 1988 than originally reported. More significantly, the $41 billion surge in inventories during the first quarter was scaled back to a modest gain of only $17 billion. While inventories spurted in the middle of the second quarter, especially as consumers shunned automobiles, manufacturers were quick to adjust to reduced order flows. By the end of the quarter, inventories once again were being accumulated at a rate consistent with recently anticipated sales growth.

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Even trade imbalances improved as a result of a $35 billion upward adjustment in inflation-adjusted exports. Although the current account deficit remains in the $100 billion range, this is down considerably from the more than $130 billion previously estimated. Much of the improvement was in exported services, leading to better productivity gains in the service sector than originally anticipated. Indeed, as a result of this upward revision in service exports, overall productivity during the past three years has averaged a satisfactory 1.8%. In 1988, productivity in the private economy grew 1.2% despite serious drought-related productivity problems in the farm economy. Such productivity improvement indicates that an upward drift in wage costs has been met by an upward drift in productivity.

In short, if current economic data is more accurate than the data previously reported, there are no serious economic imbalances that normally develop prior to a recession.

This year's price fluctuations provide clues as to how supply shocks change inflation. No one would deny that petroleum oil restraints or droughts would have an impact upon petroleum prices and food prices. These "supply shocks" occurred last year and generated their appropriate surges in prices in the relevant sectors. However, Dr. Milton Friedman has argued on several occasions that such supply conditions only change relative prices. As he is fond of quoting, "inflation is everywhere and always a monetary phenomenon". From the pricing behavior observed this year, that statement must be amended to end with the phrase "in the long run." In the relevant short-run, increasing price pressures for oil and food products do not cause other producers to run out and slash their prices. Instead, those price increases must crowd out purchasing power. A reduction in sales of other goods then must lead to the price concessions that ultimately lead to only a relative price movement in the absence of monetary ratification of the supply shocks.

Of course, what normally occurs is monetary ratification. Federal Reserves in the past have used interest rate targets to dictate their monetary policy. When a supply shock occurred, the resulting increases in prices led to tightening credit market pressures. The surge in inventory profits generated early this year was largely the result of last year's supply shock. The borrowings necessary to support those inventories led to rising short-term interest rates. Federal Reserves with interest rate targets will inappropriately read rising interest rates as a tightening of monetary policy. They, then, would increase growth in the monetary aggregates, leading to monetary support for the supply shocks. As a result, inflation increases.

This Federal Reserve decided not to monetize the drought and oil shocks. As a result, rising commodity prices reduced consumer purchasing power while rising short-term interest rates slowed the interest-sensitive parts of the economy. Production weakness then caused prices to grow by less than otherwise would have occurred. Indeed, inflation probably will now run below trend rates for much of the second half of this year, following above trend rates of inflation in the first six months. By year's end, the supply shocks will have only changed relative prices, as Dr. Friedman asserts.

Now that the surging portion of commodity prices has ended, the dip in commodity prices that should be observed will stimulate consumer spending. (A one-time surge in tax collections also restrained consumer spending during the second quarter, which now should be reversed in the second half of the year.) In short, the decline in commodity prices suggests that enough production slowing already has occurred to continue the adjustment process associated with the price run-up from the drought and oil production restraints. Thus, no further serious production reductions appear in store.

None of this suggests that the economy is no longer prone to recessions. Indeed, tight labor markets still could create wage pressures leading to profits imbalances and subsequent cost-cutting. However, such labor imbalances have not yet developed.

Quarterly Profile of GNP

	1989-1	1989-2	1989-3	1989-4	1990-1	1990-2	1989 Annual	1990 Annual
Real:	3.7	1.7	2.3	2.0	1.2	1.1	2.8	1.5
Price:	4.0	4.9	2.9	4.5	4.8	3.8	4.2	4.4
Nominal:	7.9	6.6	5.3	6.7	6.1	5.0	7.1	6.0

Monthly Statistical Highlights

	July 1989	Aug 1989	Sept 1989
Payroll Employment		+186,000	+211,000
Index of Hours Worked		-0.2%	+0.2%
Household Employment		+357,000	+216,000
Civilian Unemployment Rate		5.3%	5.2%
Personal Income	+0.8%	+0.4%	+0.5%
Savings Rate	5.8%	5.7%	5.7%
Personal Consumption	+1.0%	+0.6%	+0.5%
Retail Sales		+0.5%	+0.3%
Auto Sales		10.7*	10.5*
Housing Starts		+0.1%	-1.3%
Housing Permits		-0.6%	+1.2%
Construction Expenditures	+0.9%	+1.2%	-0.5%
Business Inventories	+0.4%	+0.5%	+0.4%
Orders for Durable Goods	+0.6%	-0.9%	-1.1%
Orders - Nondefense Capital Goods	+0.2%	-0.8%	-1.6%
Industrial Production	+0.3%	+0.2%	+0.2%
CPI	+0.1%	+0.2%	+0.4%
PPI		UNC	+0.9%
Consumption Deflator	+0.1%	+0.3%	+0.3%
Leading Indicators	+0.4%	+0.2%	-0.3%
Currency Index		-2.6%	+1.4%
Equity Index		+1.3%	+1.7%
Real GNP (annual rate)	+5.1%	+2.3%	+2.6%
M1 (annual rate)		-0.6%	+4.7%
M2 (annual rate)		+6.4%	+6.3%

* auto sales in millions

COMMENTARY

EMPLOYMENT - The employment report was strong in July. Although the 169,000 increase was far below the 250,000 in the previous month, the composition of that increase was far better. First, the private economy expanded 194,000 jobs. Second, jobs for production workers in manufacturing increased 20,000. Especially impressive was a sharp increase in the private workweek that led to a surge in the index of hours worked. The only part of the report that was weak was in civilian employment, which declined. A spurt in employment probably will occur next month. Hourly earnings spurted, but this index is not adjusted for composition shifts. Thus, an improvement in production workers automatically would have increased the index. Although some wage pressures undoubtedly are being generated, too much has been made of the 0.7% increase in the index for July. Smaller increases should be expected in the summer months. The reduction in unemployment came in the teenage group, as the summer labor force did not swell as much as normally occurs. Longer workweeks suggest stronger payroll employment next month. In addition, the rise in hourly earnings and a sharp increase in the index of hours worked suggest that a very strong gain will be generated for wages and salaries in July.

PERSONAL INCOME AND OUTLAYS - Auto sales rebounded as a result of incentives and a growing attempt to avoid large price increases in the new model year. Almost certainly, there will be a shift in auto sales to the summer months at the expense of the fall. This will have some adverse effects upon consumer spending in the fall and will bolster consumer spending during the summer. Presumably, the automobile industry is aware of these shifts and will not alter production to meet near-term spurts in sales. As a result, only inventory levels will be adjusted by this activity.

However, some analysts were incorrect in assessing that the 0.4% gain in retail sales excluding automobiles in July merely reflected inflation. Indeed, there is no commodity inflation in July. Thus, real consumer sales are surging both in the nondurable and service sectors. The service sector was especially restrained in June as a result of mild and wet weather that sharply reduced normal utility consumption. More normal utility activity in July should lead to a surge there. Thus, consumer activity will spurt in July in addition to the automobile components. The rebound in housing activity probably assures some growth in sales of non-auto durables. Activity improved modestly in July after a sharp upward revision in the May levels. Sharp upward revisions also occurred in the May estimates of nondurable sales to more appropriately reflect sharp petroleum price increases that developed at that time. Now that inflationary pressures are easing and the spring surge in tax payments has moderated, stronger consumer spending is anticipated. Even so, the rebound in wage and salary earnings in July suggests that savings rates will remain relatively high, at 5.8%.

Farm income continued to fall in July but should begin rebounding as the new harvest arrives in September. This will add to further personal income growth and generate some improved savings at that time.

CONSTRUCTION - Declining mortgage rates are beginning to encourage some improvement in housing activity. However, housing permits remain weak, suggesting no dramatic surge in the housing market. Also, single-family starts are only grudgingly increasing. The July figures show that activity weakened in the West and the South while rebounding in the Northeast and Midwest. In the previous month, strength was in exactly the opposite geographic areas. This suggests that sampling problems rather than any substantial shift in momentum currently is developing, although the housing boom in the West may be grinding to a halt.

Some improvement in housing activity should be reflected in improving residential construction activity. The weather also has become more favorable for construction. On the other hand, the June increase in nonresidential construction was broad-based and a surprise. Perhaps, construction teams were more able to do internal work on large projects while weather was denying access to housing production. This normally is not observed, but could suggest that nonresidential construction took a temporary blip and will settle back in the summer months.

Construction costs slowed their rate of ascent in June and probably will grow at a relatively modest rate for the remainder of this year. However, the construction deflator probably will increase in the range of 4%.

BUSINESS ACTIVITY - Manufacturers' inventories grew slowly. As a result, business inventories are now growing significantly slower than had been projected despite continuing accumulations of auto inventories. Thus, most of the production weakness during the spring appears to be the result of managing inventories and therefore is positive for the trend of future economic activity.

Defense activity was stronger than anticipated, but this is probably a temporary spurt. Shipments of nondefense capital goods slowed in June but should grow strongly into next year. Although orders excluding aircraft are only $400 million above shipments, that gap is sufficient for backlogs other than aircraft to grow. No significant correction in shipments are anticipated until the backlog actually begins declining. Primary metals orders should fall following a surge earlier this year. Fortunately, machinery orders have again strengthened following a spring lull. Concern now is in the information equipment area, where customers apparently are waiting for new technology and are not aggressively making commitments. Relatively flat orders should develop through the remainder of this year.

The dip in industrial production probably ended in June as a result of improvement in production worker activity. Weakness was widespread and included business equipment as well as utilities. However, a dip in materials production suggested an attempt to control inventories. Production now should rebound in the next few months. Capacity utilization should remain near current levels with no significant generation of bottlenecks over the next 12 months.

PRICES - As mentioned above, above-trend increases in prices as a result of supply shocks should be followed by below-trend activity if the Federal Reserve does not ratify the supply shocks. This Federal Reserve clearly has not supported the price increases generated by drought and oil production restraints. As a result, commodity prices now are falling significantly. Some declines are in the same areas that showed significant increases, but other declines also are occurring. If the Federal Reserve does not significantly increase money growth, several months of below-trend inflation should be anticipated. Indeed, the CPI for July could remain unchanged. Because of earlier rebates than seasonally anticipated, the auto price indices for July were especially restrained. When the September indices arrive, the price decreases that will be anticipated already will be in place. As a result, a spurt in measured inflation could occur at that time.

A second problem that some people are seeing in the auto area will not materialize. Traditionally, if price changes are the result of mandated regulations, they are viewed as improvements and do not add to the price index. They do add to the ticket price of the car, however. Apparently, the large price increases for automobiles this October will almost all be counted as quality adjustments. Thus, those price increases will not have an impact upon the price indices.

MISCELLANEOUS - Rising oil prices have resulted in a spurt in the trade deficit. In addition, the strong dollar has slowed the flow of exports. Imports are expected to remain strong while a strong dollar will continue to have some adverse effects upon export activity into the fall. Nevertheless, merchandise trade balances should again gradually recede.

The leading indicators should rebound in July as a result of stronger money growth, improving stock values, and modest improvement in orders being only partially offset by initial claims and sensitive prices.

The inventory valuation adjustment will come down as rapidly as it increased as a result of the compression in commodity inflation. As a result, the quality of profits should improve significantly. However, the stock market apparently ignored deterioration in profit quality during the spring and therefore should not rally significantly as quality improves.

FINANCIAL MARKETS

Because of unusual tax collections, the government deficit was surprisingly subdued in the first half of the year. Total government deficits, including the state and local pension surpluses, fell below $100 billion. A rebound to the vicinity of $130 billion is anticipated by the fourth quarter. Then, generally flat borrowing needs are anticipated through 1990. Government borrowings will generate higher interest rates during the summer months followed by a neutral impact upon interest pressures for the remainder of the year.

During the spring, the household sector was able to increase savings even as it was paying heavy taxes as a result of reduced spending programs. This was especially remarkable as commodity prices were significantly raising the costs of consumer goods. During the summer, falling commodity prices should allow the household sector to maintain its savings pattern, although shifting auto sales from the fall to the summer could put some modest upward pressures upon credit markets during that time. Then, of course, reduced auto spending should reduce credit market pressures in the fall.

As usual, most of the borrowing pressures are being generated by the corporate sector. Profitability fell sharply in the first quarter after removing inventory profits. Indeed, corporate savings fell while corporate investment rose because of higher inventory prices. As economic activity picks up modestly in the second half of the year, corporate profits may rebound more significantly. Corporate investment is expected to continue rebounding as a result of higher inventory investments and increased capital spending programs. Capital spending may weaken in the fourth quarter, however.

This suggests that credit market pressures should show surprising strength during the summer. That could lead to a slight rebound in interest rates. Of course, the Federal Reserve probably will not allow an interest rate surge because of previous softness in production. Therefore, money growth probably will rebound, causing some uneasiness for long-term investors. However, these borrowing forces are expected to again ease in the fall, leading to further declines in interest rates into the first half of 1990.

Of course, foreign investors will also be significant in these interest rate movements. With the dollar remaining relatively strong in the summer months, foreigners are offsetting domestic pressures for higher interest rates. By the fall, the domestic pressures should be easing while an anticipated decline in the dollar should discourage foreign investors. Therefore, the decline in interest rates in the fall should be modest. But a decline is anticipated.

EQUITY MARKETS - Equities are overvalued, but they are not that much overvalued. A decline in interest rates justifies most of the upward movement that has been experienced in equity values in the first half of this year. However, the stock market appears to have ignored the deteriorating quality in profits. While the quality of profits should improve in the second half as inventory valuation adjustments decline, the stock market probably will continue to look at after-tax profits. They are expected to fall more than 2% this year and also decline modestly next year. For that reason, equity values are expected to fall in the next six months. Nevertheless, the degree of decline should be modest.

The movement toward cyclical stocks because of the absence of a recession appears to be inappropriate. The inventory profits generated by commodity producers are one-time events that will rapidly vanish. Indeed, some of those industries may have cash-flow problems. Certainly, the primary metals and some of the machinery industries could experience some earnings surprises in the next six months. A safer procedure would be to invest in some of the service-related activities, including entertainment and communications services, and the related peripheral equipment. Early next year, technology companies probably will be in a position to rebound as new technology becomes available. In short, the stock market will be much more selective and show little direction from current levels over the next twelve months.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	108065	107442	128.3	127.4	116711	116711	5.4	5.4	9.49	9.49
February	108341	107711	127.8	127.2	116853	116853	5.1	5.1	9.50	9.52
March	108512	107888	128.1	127.6	117136	117136	5.0	5.0	9.52	9.54
April	108695	108101	129.5	128.7	117226	117113	5.2	5.3	9.58	9.61
May	108820	108310	128.0	127.6	117363	117215	5.2	5.2	9.62	9.60
June	108946	108560	128.5	128.0	117502	117541	5.1	5.3	9.66	9.62
July	109167	108729	128.9	129.4	117743	117459	5.1	5.2	9.70	9.69
August	109384	108915*	129.3	129.2*	117979	117816*	5.0	5.3*	9.74	9.72*
September	109602	109126	129.7	129.4	118208	118032	5.0	5.2	9.78	9.75
October	109715	109319	129.5	129.5	118328	118382	5.0	5.1	9.82	9.79
November	109832	109528	129.7	129.8	118497	118552	5.1	5.1	9.86	9.82
December	109950	109705	129.9	129.9	118654	118721	5.0	5.1	9.90	9.85
January 1990	110106	109894	130.0	129.9	118827	118922	5.0	5.1	9.94	9.88
February	110303	110007	130.2	130.0	119012	119064	5.0	5.1	9.98	9.92
March	110501	110110	130.3	130.0	119296	119153	5.1	5.3	10.02	9.95
April	110605	110291	130.4	130.3	119337	119357	5.1	5.3	10.06	9.98
May	110636	110443	130.4	130.7	119305	119527	5.2	5.3	10.10	10.01
June	110640	110607	130.3	130.8	119324	119635	5.3	5.4	10.14	10.05

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	4.272	4.273	2.559	2.545	187.9	174.6	3.659	3.642	3.472	3.467
February	4.316	4.320	2.571	2.557	213.7	210.7	3.701	3.698	3.487	3.487
March	4.350	4.361	2.592	2.579	234.0	231.9	3.729	3.729	3.495	3.497
April	4.378	4.387	2.607	2.601	220.8	163.3	3.750	3.718	3.529	3.535
May	4.398	4.395	2.619	2.602	207.9	203.5	3.765	3.747	3.557	3.543
June	4.420	4.407	2.631	2.616	206.2	224.1	3.781	3.769	3.575	3.545
July	4.450	4.443*	2.649	2.644*	214.2	222.1*	3.814	3.801*	3.600	3.579*
August	4.481	4.461	2.667	2.653	211.5	216.4	3.834	3.815	3.623	3.599
September	4.511	4.484	2.685	2.666	218.0	218.2	3.855	3.836	3.637	3.618
October	4.534	4.508	2.699	2.681	219.3	223.2	3.875	3.856	3.656	3.633
November	4.554	4.531	2.709	2.696	221.5	221.6	3.894	3.875	3.673	3.653
December	4.573	4.551	2.719	2.707	226.3	219.9	3.916	3.891	3.690	3.671
January 1990	4.600	4.567	2.738	2.717	227.4	203.8	3.938	3.892	3.711	3.688
February	4.626	4.593	2.759	2.732	227.4	219.0	3.960	3.928	3.733	3.709
March	4.652	4.613	2.780	2.742	227.0	206.1	3.982	3.938	3.755	3.732
April	4.669	4.640	2.791	2.759	223.4	189.0	3.995	3.937	3.772	3.748
May	4.685	4.668	2.801	2.777	216.0	206.9	4.009	3.973	3.793	3.766
June	4.701	4.691	2.810	2.792	214.0	231.8	4.026	4.013	3.812	3.781

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	3367.8	3365.6	469.1	473.1	1088.9	1093.8	1809.8	1798.7	2634.1	2636.5
February	3383.2	3384.7	461.0	464.2	1093.9	1098.6	1828.4	1821.9	2641.0	2647.0
March	3390.3	3394.0	454.3	461.8	1098.4	1102.5	1837.6	1829.6	2629.4	2639.6
April	3424.2	3432.2	463.7	477.3	1110.3	1113.2	1850.2	1841.7	2642.1	2652.5
May	3451.8	3440.2	468.5	467.7	1121.2	1118.1	1862.1	1854.4	2651.1	2647.8
June	3469.2	3441.4	467.6	466.0	1127.6	1118.5	1874.0	1856.9	2652.3	2644.3
July	3493.8	3475.1*	470.3	475.2*	1134.3	1126.6*	1889.2	1873.3*	2660.9	2668.1*
August	3516.1	3494.4	473.9	479.9	1138.6	1128.3	1903.6	1886.2	2669.8	2675.9
September	3530.2	3513.2	469.4	479.7	1142.8	1133.9	1918.0	1899.6	2672.4	2682.0
October	3548.4	3527.7	470.6	476.4	1147.3	1138.8	1930.5	1912.5	2674.0	2684.0
November	3564.8	3547.7	469.0	478.4	1152.8	1143.6	1943.0	1925.7	2674.3	2689.1
December	3581.5	3564.9	467.7	480.4	1158.2	1148.1	1955.6	1936.4	2674.8	2692.7
January 1990	3602.4	3581.4	469.9	479.5	1163.6	1152.0	1968.9	1949.9	2680.4	2694.7
February	3624.0	3601.6	472.1	482.8	1169.7	1157.2	1982.2	1961.6	2688.4	2701.5
March	3645.6	3623.9	474.3	487.7	1175.8	1162.0	1995.5	1974.2	2694.5	2709.0
April	3662.2	3639.7	472.7	485.3	1180.2	1167.9	2009.3	1986.5	2694.8	2710.7
May	3683.2	3657.3	475.1	486.2	1183.5	1172.3	2024.6	1998.8	2696.3	2713.8
June	3701.7	3671.8	475.1	484.9	1186.7	1176.1	2039.9	2010.8	2698.0	2712.9

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	140.04	140.04	22.62	22.62	9.8	9.8	86.23	86.23	31.19	31.19
February	139.43	139.43	22.43	22.43	9.9	9.9	86.36	86.36	30.64	30.64
March	139.36	139.52	22.13	22.70	9.6	9.6	86.76	86.63	30.48	30.79
April	139.93	140.94	21.83	22.41	10.8	10.8	87.30	87.12	30.81	31.41
May	141.36	142.54	22.34	22.97	10.0	10.1	88.16	88.40	30.86	31.17
June	141.74	142.44	22.54	22.79	9.6	9.9	88.66	88.79	30.54	30.86
July	142.58	143.73	22.47	22.89	9.8	10.2	89.19	89.16	30.92	31.68
August	143.33	144.41*	21.95	22.88*	10.5	10.7*	89.53	89.30*	31.85	32.23*
September	143.15	144.82	21.87	23.03	10.2	10.5	89.86	89.74	31.42	32.05
October	143.63	144.84	22.17	23.12	9.8	9.6	90.21	90.13	31.25	31.59
November	143.88	145.44	22.02	23.16	9.7	9.7	90.64	90.51	31.22	31.77
December	144.16	146.03	21.46	23.22	9.9	9.8	91.07	90.86	31.63	31.95
January 1990	144.83	146.23	21.60	23.20	9.9	9.7	91.49	91.17	31.74	31.86
February	145.56	147.02	21.64	23.31	10.0	9.9	91.97	91.58	31.95	32.13
March	146.29	147.96	21.96	23.34	9.9	10.2	92.45	91.96	31.88	32.66
April	146.46	148.16	21.90	23.45	9.8	10.0	92.80	92.43	31.76	32.28
May	146.99	148.61	21.88	23.48	10.0	10.0	93.06	92.78	32.05	32.35
June	147.24	148.76	21.70	23.53	10.1	9.9	93.31	93.08	32.23	32.15

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	1.678	1.678	1.199	1.199	1.486	1.486	418.0	424.8	358.9	358.3
February	1.465	1.465	1.029	1.029	1.403	1.403	414.8	418.5	355.7	349.4
March	1.399	1.409	0.986	0.981	1.230	1.230	413.5	419.2	354.2	348.0
April	1.361	1.343	1.015	1.029	1.318	1.334	409.3	415.8	350.1	345.0
May	1.406	1.309	1.021	0.977	1.305	1.347	409.0	418.2	349.6	346.2
June	1.412	1.400	0.970	0.975	1.317	1.300	409.2	414.7	349.1	342.7
July	1.354	1.388*	0.968	0.970*	1.267	1.312*	408.3	418.5*	347.2	345.0*
August	1.342	1.389	0.963	0.986	1.246	1.304	407.2	423.6	345.7	348.4
September	1.327	1.371	0.958	0.993	1.229	1.320	406.0	421.7	344.1	345.7
October	1.335	1.396	0.952	1.005	1.238	1.326	408.6	424.4	345.7	346.7
November	1.340	1.392	0.947	0.996	1.245	1.316	410.8	425.4	347.0	346.4
December	1.343	1.404	0.943	1.002	1.249	1.322	412.9	427.7	348.1	347.4
January 1990	1.296	1.410	0.935	1.013	1.217	1.313	413.0	428.9	347.6	347.3
February	1.304	1.409	0.928	1.005	1.223	1.324	414.1	430.4	348.0	347.4
March	1.321	1.405	0.921	1.002	1.229	1.328	414.1	431.5	347.1	346.9
April	1.327	1.407	0.935	1.013	1.234	1.319	416.0	432.3	348.1	346.1
May	1.335	1.430	0.942	1.026	1.236	1.362	417.7	434.6	348.7	346.8
June	1.343	1.433	0.949	1.028	1.245	1.341	419.5	435.5	349.6	346.2

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	135.1	134.8	81.4	85.3	201.4	204.7
February	133.7	132.7	81.5	83.4	199.6	202.3
March	138.7	135.9	74.1	78.7	200.7	204.5
April	136.6	131.4	76.5	80.4	196.2	204.0
May	136.4	133.3	76.9	84.7	195.7	200.2
June	136.6	136.1	77.3	80.6	195.3	197.9
July	137.0	135.6*	77.9	82.6*	193.4	200.3*
August	137.4	135.8	78.4	83.1	191.4	204.7
September	137.7	136.0	78.8	83.3	189.5	202.4
October	138.5	136.6	79.5	83.8	190.6	204.0
November	139.3	136.8	80.0	84.3	191.5	204.3
December	140.0	137.1	80.5	84.6	192.4	206.0
January 1990	140.3	137.5	80.9	85.1	191.8	206.3
February	140.7	138.1	81.4	85.0	192.0	207.3
March	141.1	138.5	80.8	85.8	192.2	207.2
April	141.5	138.2	81.2	86.2	193.3	207.9
May	141.3	139.0	81.8	86.5	194.6	209.1
June	141.3	139.4	82.3	86.9	195.9	209.2

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	357.5	357.5	128.48	128.48	40.35	40.35	33.33	33.33
February	359.1	359.1	124.11	124.11	37.19	37.19	33.46	33.46
March	360.4	361.1	125.21	125.38	38.09	38.14	34.03	34.08
April	363.4	363.5	126.63	129.37	37.76	40.39	34.26	34.60
May	365.3	365.1	129.94	123.68	37.85	37.29	34.39	34.53
June	367.2	366.2	126.27	124.19	37.12	37.39	34.52	34.59
July	370.5	368.1*	126.43	124.94*	36.69	37.47*	34.82	34.76*
August	373.4	370.2	126.68	123.82	36.63	37.17	35.03	34.91
September	376.2	372.1	126.29	122.51	36.17	36.56	35.24	35.03
October	378.9	374.5	125.76	123.12	35.84	36.82	35.36	35.16
November	381.1	376.9	125.43	123.65	35.53	36.59	35.45	35.26
December	383.3	379.2	125.89	123.74	35.72	36.62	35.75	35.41
January 1990	385.2	380.7	126.14	122.96	35.88	36.43	35.66	35.46
February	387.4	382.2	126.35	122.15	36.17	36.27	35.87	35.62
March	389.6	384.1	126.12	122.36	35.93	36.65	36.02	35.53
April	390.9	386.4	125.56	122.95	35.76	35.85	36.05	35.63
May	391.3	388.8	124.85	122.98	35.49	35.87	36.01	35.81
June	391.7	391.0	125.18	123.15	34.64	35.82	35.99	35.73

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	759.8	759.8	8.73	8.73	140.8	140.8	84.3	84.3
February	763.6	763.1	8.40	8.40	140.4	140.5	83.9	83.9
March	765.6	765.5	8.50	8.45	140.5	140.7	83.7	83.8
April	772.3	771.3	8.58	8.63	140.9	141.6	83.8	84.1
May	779.6	778.1	8.62	8.70	141.2	141.4	83.9	83.8
June	786.8	780.8	8.62	9.20	141.5	141.1	84.0	83.5
July	789.9	784.1*	8.55	9.03*	142.7	141.5*	84.4	83.6*
August	793.0	788.2	8.61	8.86	143.9	141.8	84.8	83.6
September	795.9	791.6	8.67	8.91	145.1	142.1	85.2	83.6
October	801.4	795.5	8.62	8.95	144.7	142.4	84.7	83.6
November	808.9	799.7	8.70	8.79	144.3	143.2	84.3	83.9
December	816.3	803.6	8.78	8.94	144.6	143.3	84.4	83.7
January 1990	819.4	807.5	8.68	9.01	144.5	143.4	84.1	83.5
February	822.0	811.1	8.76	9.05	144.2	143.2	83.8	83.0
March	824.6	816.1	8.90	9.09	143.9	143.3	83.5	82.9
April	828.5	820.4	8.74	9.03	143.4	143.8	83.1	83.1
May	832.4	825.5	8.67	9.10	142.9	144.4	82.7	83.3
June	833.2	830.8	8.60	9.16	142.5	144.6	82.4	83.3

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	121.4	121.4	111.0	111.0	109.1	109.1	125.0	124.4
February	121.9	121.9	112.1	112.1	110.0	110.0	125.2	124.5
March	122.5	122.5	112.6	112.6	110.6	110.6	125.5	124.7
April	123.4	123.3	113.1	113.1	111.3	111.3	126.1	125.5
May	124.1	124.0	113.8	114.1	112.0	111.7	126.8	126.1
June	124.5	124.2	114.2	113.9	112.7	111.6	127.2	126.4
July	125.1	124.4*	114.4	113.4	113.0	111.3	127.5	126.5
August	125.6	124.6	114.7	113.4*	113.5	111.7*	127.9	126.9
September	126.2	125.0	114.7	114.4	112.5	111.6	128.3	127.3
October	126.7	125.4	115.0	114.8	113.9	112.8	128.8	127.8
November	127.2	125.9	115.3	115.3	114.0	113.3	129.3	128.3
December	127.8	126.4	115.6	115.8	114.2	113.7	129.8	128.8
January 1990	128.2	126.9	116.0	116.2	114.8	114.1	130.4	129.4
February	128.5	127.3	116.5	116.5	115.6	114.5	131.0	129.8
March	128.9	127.8	116.8	116.9	116.4	115.0	131.6	130.3
April	129.5	128.4	117.2	117.2	116.8	115.5	132.1	130.8
May	130.2	128.9	117.6	117.6	117.1	115.9	132.7	131.3
June	130.9	129.3	118.1	117.9	117.4	116.3	133.3	131.9

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	127.9	127.7	112.0	111.7	119.4	118.5	138.9	137.9	116.4	118.6
February	128.1	127.9	111.7	111.3	119.5	119.7	139.2	138.9	116.6	119.8
March	128.9	128.6	111.3	110.7	121.0	121.0	139.9	139.5	116.7	120.4
April	129.6	129.4	111.6	111.0	122.2	122.8	140.5	140.0	116.9	120.5
May	130.2	129.9	111.8	110.9	123.2	123.6	141.1	140.4	117.1	120.8
June	130.8	130.1	112.0	111.1	123.6	123.4	141.7	140.8	117.3	121.0
July	131.3	130.2*	112.4	111.3*	123.8	123.2*	142.3	141.2*	117.6	121.3*
August	131.7	130.6	112.7	111.5	124.0	123.4	142.9	141.7	117.8	121.6
September	132.1	131.0	113.0	111.7	124.2	123.7	143.5	142.2	118.0	122.0
October	132.7	131.4	113.2	111.8	124.8	124.1	144.2	142.7	118.2	122.4
November	133.3	131.9	113.4	112.1	125.3	124.5	144.9	143.3	118.4	122.8
December	133.9	132.4	113.4	112.3	125.9	124.9	145.6	143.9	118.6	123.1
January 1990	134.4	132.9	113.7	112.4	126.3	125.4	146.2	144.5	118.8	123.5
February	134.8	133.3	114.0	112.6	126.6	125.8	146.9	145.0	119.0	123.9
March	135.3	133.8	114.3	112.8	127.0	126.2	147.5	145.6	119.3	124.4
April	135.9	134.3	114.4	113.0	127.7	126.6	148.3	146.2	119.5	124.9
May	136.6	134.8	114.5	113.3	128.4	127.0	149.0	146.8	119.8	125.3
June	137.2	135.3	114.4	113.5	129.0	127.5	149.7	147.5	120.0	125.8

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators	Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)	
	Fore.	C.E.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	-8.68	-8.90	146.1	5109	5102	4087	4101	-26.7	-31.7
February	-9.82	-9.38	145.7	5114	5111	4085	4105	-39.6	-41.6
March	-8.86	-9.48	144.7	5127	5126	4085	4111	-41.7	-49.1
April	-9.73	-8 29	145.6	5163	5176	4094	4124	-40.2	-35.3
May	-9.92	-10.24	143.7	5197	5199	4099	4123	-28.6	-18.4
June	-9.42	-10.00	143.5	5231	5210	4112	4122	-23.5	-15.3
July	-10.21	-9.53	144.1*	5256	5236	4122	4139	-25.5	-10.6
August	-10.88	-9.76	144.3	5288	5262	4134	4147	-28.0	- 3.4
September	-10.83	-9.62	143.9	5320	5290	4147	4156	-29.9	- 6.8
October	-10.62	-9.47	144.3	5341	5319	4147	4162	-28.6	-10.3
November	-10.25	-9.55	143.7	5359	5349	4145	4169	-27.4	-11.5
December	-9.56	-9.46	144.0	5379	5374	4147	4172	-26.3	-13.4
January 1990	-9.93	-9.32	143.9	5405	5403	4145	4175	-30.2	-18.1
February	-10.58	-9.23	144.2	5442	5428	4154	4182	-32.4	-18.3
March	-10.86	-9.26	144.7	5480	5451	4164	4183	-34.6	-16.7
April	-9.85	-8.95	145.0	5493	5478	4158	4188	-31.1	-19.5
May	-9.52	-8.65	144.8	5502	5506	4146	4193	-29.9	-23.8
June	-9.37	-8.56	145.0	5508	5532	4132	4194	-28.7	-27.4

	Currency Index		Adjusted Profits		30-Year Government Bonds		New York Composite	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	95.12	95.12	210.5	193.6	8.93	8.93	160.40	160.40
February	95.77	95.77	163.4	163.9	9.01	9.01	165.08	165.08
March	96.99	96.99	156.5	157.3	9.17	9.17	164.60	164.60
April	97.23	97.24	165.9	166.8	9.32	9.03	165.13	170.34
May	97.95	100.81	178.2	174.7	9.40	8.83	166.29	175.56
June	98.56	103.09	180.3	173.2	9.36	8.28	164.21	180.90
July	97.43	98.76	177.4	175.8	9.30	8.08	156.82	188.62
August	95.82	96.24*	175.7	169.6	9.25	8.09*	153.54	191.11*
September	94.16	97.62	174.0	172.2	9.21	7.93	150.26	194.43
October	93.09	95.43	173.1	170.4	9.18	8.11	148.29	186.57
November	91.70	93.48	172.4	171.2	9.12	7.89	148.86	188.77
December	90.36	94.12	171.9	168.3	9.15	7.75	149.30	184.49
January 1990	91.25	94.55	169.8	165.1	9.06	7.82	145.14	180.64
February	94.46	95.83	169.1	160.6	9.01	7.84	140.53	177.56
March	94.05	95.64	168.2	158.3	8.92	7.65	138.27	180.24
April	91.02	93.26	168.5	167.2	8.78	7.63	139.45	184.53
May	89.63	93.85	166.1	171.3	8.73	7.55	140.25	189.23
June	88.26	92.66	163.7	169.8	8.70	7.63	141.06	182.10

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	287.9	287.9	786.3	786.3	3065.9	3065.7	9.12	9.12	8.36	8.36
February	287.5	287.5	787.4	787.4	3069.7	3069.2	9.36	9.36	8.55	8.55
March	289.4	289.3	786.3	786.3	3079.5	3078.7	9.85	9.85	8.85	8.85
April	290.3	289.1	782.9	783.1	3090.4	3081.1	9.84	9.84	8.65	8.65
May	292.9	289.0	785.3	773.3	3101.3	3071.8	9.83	9.81	8.74	8.39
June	295.5	289.6	787.2	770.5	3112.2	3087.3	9.83	9.47	8.83	8.04
July	297.3	290.7*	792.5	777.2	3134.6	3119.1	10.20	9.24	8.89	7.61
August	298.1	292.1	798.9	776.8*	3158.6	3135.3*	10.23	8.96*	8.86	7.96*
September	298.9	293.6	804.9	779.8	3182.5	3151.4	10.26	8.88	8.83	7.71
October	300.4	295.2	808.6	784.2	3195.6	3169.2	10.32	8.73	8.81	7.65
November	302.8	297.0	812.4	788.6	3213.2	3187.0	10.29	8.52	8.82	7.43
December	305.2	298.3	816.2	793.0	3231.0	3205.2	10.26	8.59	8.80	7.49
January 1990	306.9	299.9	821.7	797.2	3250.4	3222.6	10.01	8.57	8.73	7.43
February	307.8	300.8	828.6	801.2	3270.3	3238.8	9.96	8.40	8.62	7.15
March	308.7	302.1	835.4	804.0	3290.1	3255.1	9.84	8.21	8.51	7.06
April	310.5	304.0	840.3	807.7	3314.3	3271.2	9.56	8.16	8.47	7.09
May	312.5	305.7	845.0	811.2	3326.1	3286.9	9.55	8.13	8.41	7.07
June	314.4	307.5	849.8	815.4	3338.0	3304.6	9.56	8.15	8.36	7.04

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	9.62	9.62	7.35	7.35	9.04	9.04	9.20	9.20	10.50	10.50
February	9.64	9.64	7.44	7.44	9.37	9.37	9.51	9.51	10.93	10.93
March	9.80	9.80	7.59	7.59	9.95	9.95	10.09	10.09	11.50	11.50
April	9.79	9.79	7.49	7.49	9.81	9.81	9.94	9.94	11.50	11.50
May	9.75	9.57	7.45	7.25	9.80	9.47	9.93	9.59	11.50	11.50
June	9.83	9.20	7.51	7.03	9.86	9.12	9.97	9.32	11.50	11.07
July	9.89	8.93	7.58	6.96	10.17	8.68	10.26	8.76	11.68	10.98
August	9.95	8.89*	7.64	6.95*	10.26	8.66*	10.35	8.78*	12.00	10.50*
September	9.99	8.74	7.68	6.86	10.23	8.65	10.30	8.75	12.00	10.50
October	9.90	8.93	7.62	7.01	10.30	8.69	10.41	8.81	12.00	10.50
November	9.83	8.86	7.53	6.97	10.25	8.53	10.37	8.67	12.00	10.50
December	9.76	8.73	7.47	6.91	10.22	8.48	10.33	8.59	12.00	10.50
January 1990	9.70	8.76	7.40	6.87	10.07	8.43	10.22	8.56	12.00	10.50
February	9.67	8.79	7.38	6.88	9.98	8.28	10.09	8.37	11.96	10.26
March	9.64	8.62	7.35	6.75	9.88	8.04	10.05	8.19	11.50	10.00
April	9.56	8.53	7.26	6.69	9.59	8.11	9.76	8.21	11.50	10.00
May	9.53	8.59	7.20	6.70	9.53	8.17	9.71	8.29	11.28	10.00
June	9.50	8.63	7.18	6.73	9.50	8.21	9.65	8.34	11.00	10.00

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